

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

OFFICE OF THE CHAIRMAN

August 2, 2000

The Honorable Gray Davis
Governor of California
State Capitol
Sacramento, CA 95814

Dear Governor Davis:

Thank you for your letter of July 27, 2000, expressing concern about recent events in California electricity markets. Notwithstanding this Commission's strong commitment to competitive bulk power markets, I am concerned about the impact of electricity price increases on certain California consumers.

I can assure you that California and the FERC share the same goals -- an electric industry that provides reliable and efficient service to American consumers, at reasonable prices. I am persuaded that California's leadership in retail competition under S.B. 1890 and in realigning the assets of incumbent utilities will reinvigorate investment in the state's power markets and will ultimately pay rich dividends. I nevertheless understand that capacity shortages, the unusually hot weather in the West this summer, and some unit outages have continued to exacerbate the challenges faced by the ISO, as it attempts to promote a transition to competition that would be challenging in any event. The Commission has been following this summer's events in California markets closely, and the Commission's staff has been in contact with the state agencies that have responsibility for electric matters. I believe that this constructive working relationship is doubly important as we seek to serve the public interest under conditions that stress the power system.

As you know, jurisdiction over electric matters is shared between state and federal regulators. As California has implemented its restructuring, the Commission has worked diligently to provide the FERC reviews necessary to implement the distinctly California approach on the aggressive timeline set out by state law. While I cannot comment on specific proposals that may be filed with the Commission, I stand ready to take appropriate action on matters within our jurisdiction. We have done our best to accommodate the many developments initiated by S.B. 1890 that fall under our exclusive jurisdiction. We must work together to ensure that any regulatory response to current events does not undermine reliability of the electric system or unduly delay the

maturation of modern electricity markets and the price signals and price stability to which consumers are entitled.

Electricity is a commodity that is essential to people's quality of life. Competitive markets will serve those needs best in the long run. However, we recognize that retail price volatility has real impacts on consumers in California. Federal and state authorities must therefore cooperate to ensure that markets are allowed to work and that energy suppliers are not prevented from prudently managing the price risks associated with competition.

Be assured of my continued attention and cooperation in seeking a lasting solution to this situation.

Sincerely,

A handwritten signature in black ink, appearing to read "James J. Hoecker", with a stylized flourish at the end.

James J. Hoecker
Chairman